THE NEW FORCE

in the Canadian Petroleum Industry...

A PRESENTATION BY

PACIFIC PETROLEUMS LTD.

THE NEW FORCE
in the
CANADIAN PETROLEUM INDUSTRY

A PRESENTATION TO THE
NEW YORK OIL ANALYSTS GROUP

by

JOHN GETGOOD
President

and

KELLY H. GIBSON
Executive Vice-President

PACIFIC PETROLEUMS LTD.
CALGARY, ALBERTA

October 31, 1963 New York, N.Y.

The following is the text of a presentation on Pacific Petroleums Ltd. by John Getgood, President, and Kelly Gibson, Executive Vice-President, to the New York Oil Analysts Group. Mr. Getgood:

MR. CHAIRMAN, MEMBERS AND GUESTS OF THE NEW YORK OIL ANALYSTS GROUP:

At the beginning of our presentation, I should like to introduce two other executives of Pacific Petroleums who are here today. Our Executive Vice President, who has been with Pacific since 1957 and for 23 years prior to that was with Gulf Oil Corporation, Mr. Kelly Gibson. The Treasurer and a Vice President and Director of our Company, who has a record of 25 years service with Pacific, Mr. A. P. Bowsher. Mr. Gibson will deliver a part of this presentation and he and Mr. Bowsher and I will answer any questions you may wish to ask afterward.

On behalf of Mr. Gibson and Mr. Bowsher as well as the other directors and the shareholders of our Company, I wish to thank you for your kind invitation to speak to this distinguished group. Earlier this year, Pacific Petroleums was approved for listing on the New York Stock Exchange and became the first and only Canadian oil company to date to trade its shares on the Big Board. I assure you that we regard the invitation to address the New York Oil Analysts Group as another important distinction and we appreciate your interest not only in our Company but in the Canadian petroleum industry as a whole.

We who are engaged in it from day to day firmly believe that the Canadian oil and gas industry deserves the attention of the investing public at this time because it is a remarkable example of modern industrial development. Less than 20 years ago, the Canadian petroleum industry was virtually non-existent. Since 1947, when the great Leduc oil discovery was made in Alberta, more than $7 billion has been invested in Canadian oil development. In these few years, this effort has built a domestic petroleum industry which can fill all the needs of modern Canada and at the same time contribute importantly to the energy supplies of North America.

In its origins and growth, Pacific Petroleums Ltd. parallels the development of the Canadian industry more closely than any other major Canadian company. All the other firms which comprise the first half dozen in the Canadian industry were sponsored and financed by major international companies. Pacific, which began as a small exploration company in 1938, was founded independently in Canada and was entirely financed at the outset with Canadian capital.

From this modest beginning and in competition with the subsidiaries of virtually every international company, Pacific has

advanced to a position of importance in the Canadian industry. Our Company is now among the top five in total assets and we rank among the first ten in oil production. Pacific is Canada's second largest producer of natural gas and, when our current expansion program is completed early next year, we will be the largest manufacturer of natural gas liquids in the nation.

Pacific has progressed to this position by following four main courses of action:

First, because we have great faith in the potential of the Canadian sedimentary basin as a virtually untapped source of petroleum, we have endeavoured to acquire as much land as we can economically hold. Today we have interests in 12,000,000 acres.

Our second objective has been to reinvest every available dollar of our cash income in the exploration and development of these lands. In the past five years we have devoted more than $30 million to this purpose, nearly all of it generated within the Company. In addition, during the past three years, we have conducted a greatly expanded farmout program under which a total of $26 million has been invested by other companies in exploration work on Pacific acreage.

As our production increased, we have been able to make progress toward our third goal which is to achieve full integration as a major petroleum company. From being exclusively a crude oil producer, we have branched into natural gas, pipeline investment, refining and marketing and latterly into large-scale production and marketing of LPG's which are, of course, the building blocks of petrochemicals.

As a fourth course of action, Pacific has been alert for opportunities to expand its operations outward by acquiring other companies which could be logically and profitably consolidated with our own. Just in the past ten months, we have invested the share equivalent of $50 million for this purpose, the most recent transaction being the acquisition of the Canadian properties of El Paso Natural Gas.

It is our purpose here to show you that these investments of effort, equities, earnings and capital have been worthwhile and that they have soundly built a major company which is accurately described in the title of this presentation as "The New Force in the Canadian Petroleum Industry."

Pacific's properties and diversified interests are spread throughout Western Canada where all of Canada's oil and gas production is centered. We participate in the production of practically every major field and have interests in more than 25% of all the oil and gas wells that have so far been drilled. Our most productive oil properties are in the Pembina field in Alberta, the richest field

found to date in Western Canada and one of the largest in the world. We are also a large producer in Boundary Lake, which is British Columbia's major oil field. The bulk of our natural gas comes from our large acreage in northeast British Columbia.

Pacific sponsored the Westcoast Transmission pipeline, which was the first big-inch natural gas pipeline to be built in Canada. We have a 27% interest in Westcoast and through this holding we have interests in the Western Pacific oil pipeline and in the Alberta Natural Gas pipeline through which gas from southern Alberta is routed to California.

Pacific operates its own refinery at Taylor, B.C. and our marketing system in the provinces of Alberta, British Columbia and Saskatchewan is being actively expanded at the present time.

Our newest project is at Empress in southern Alberta where Pacific is building a natural gas liquids plant which will be the

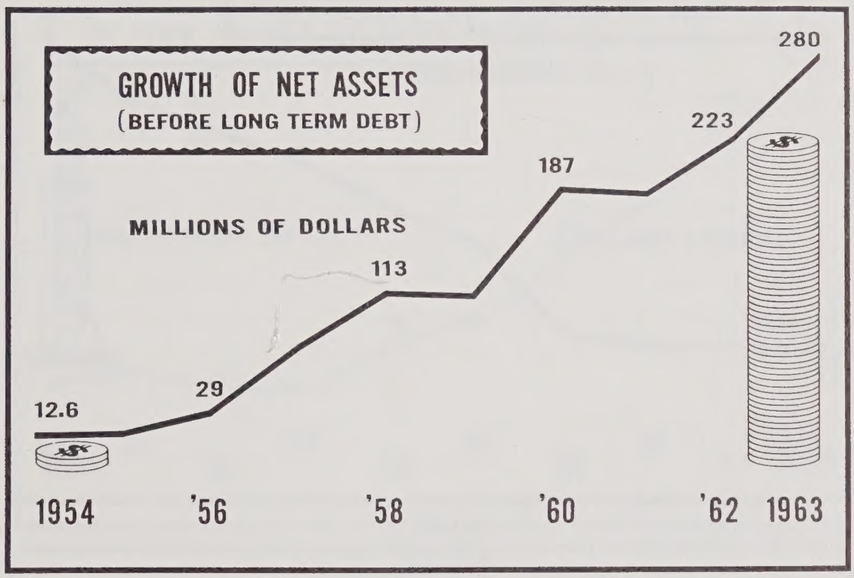


CHART I

largest of its kind in the world. From Empress to Winnipeg, we are building a 570-mile pipeline which will be the first inter-provincial products pipeline to carry LPG to the populous markets east of Alberta.

The acquisition and development of our properties have greatly increased the value of Pacific's assets and this is illustrated on Chart 1. Ten years ago our assets totalled only $12 million. Today they are conservatively valued at $280 million. I use the word "conservatively" because, in this valuation, our large oil and gas reserves are entered only at cost and the millions of acres of undeveloped land which Pacific owns throughout the oil areas of Western Canada are given a book value of only about $7 per net

LONG TERM DEBT AS AT SEPT. 30.1963

MILLIONS OF CANADIAN DOLLARS

DEBENTURES	$ 36.1
BONDS	$ 4.1
PRODUCTION BANK LOANS	$ 5.9
MORTGAGES	$ .8
TOTAL (EXCL. EMPRESS)	$ 46.9
EMPRESS FINANCING	
DRAWN TO DATE	$ 21.6
BALANCE	$ 12.9
TOTAL DEBT (INCL. EMPRESS)	$ 81.4

CHART 2

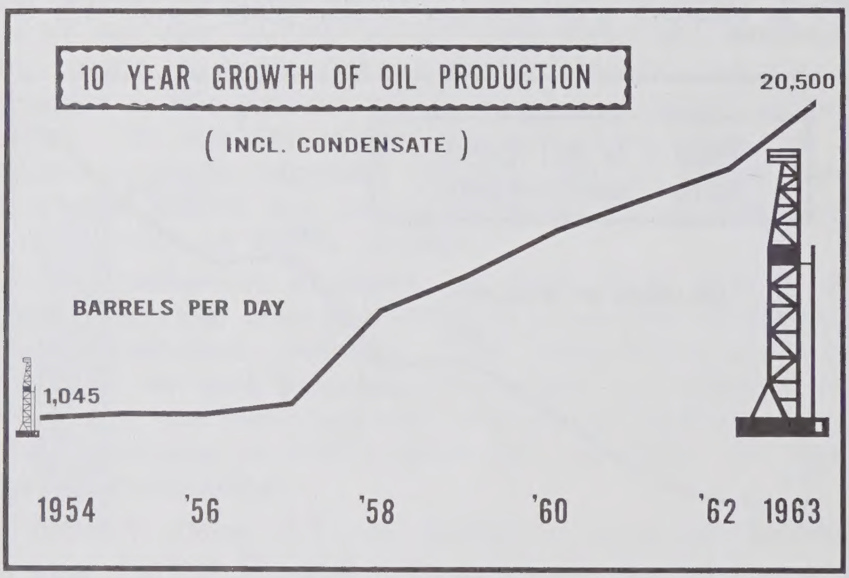


CHART 3

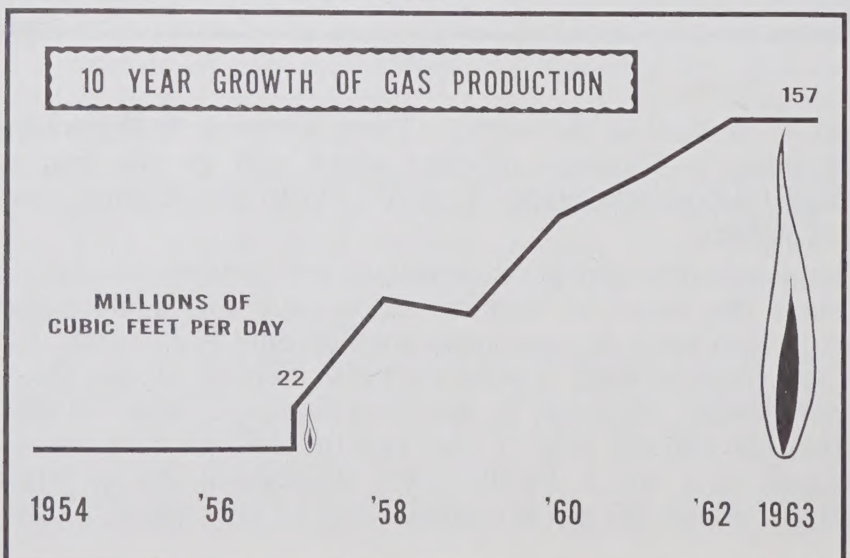


CHART 4

acre. Wildcat land like this has sold in recent years for several hundred dollars an acre.

Chart 2 shows a summary of the Company's long-term debt position. The $40 million bond and debenture debts were undertaken prior to 1958 when Pacific began a period of expansion of its gas production and refining facilities. The production loans are repayable over varying periods up to ten years while the building mortgages are on Company-owned housing. Excluding the Empress project our total debt is $46.9 million. We are now retiring this at the rate of $5 million a year and at the same time financing all our active exploration and development out of current revenues. The Empress financing, arranged here in New York, was done entirely through bank loans and the sale of secured notes to insurance companies and other institutions at rates of 5¼ to 5½%.

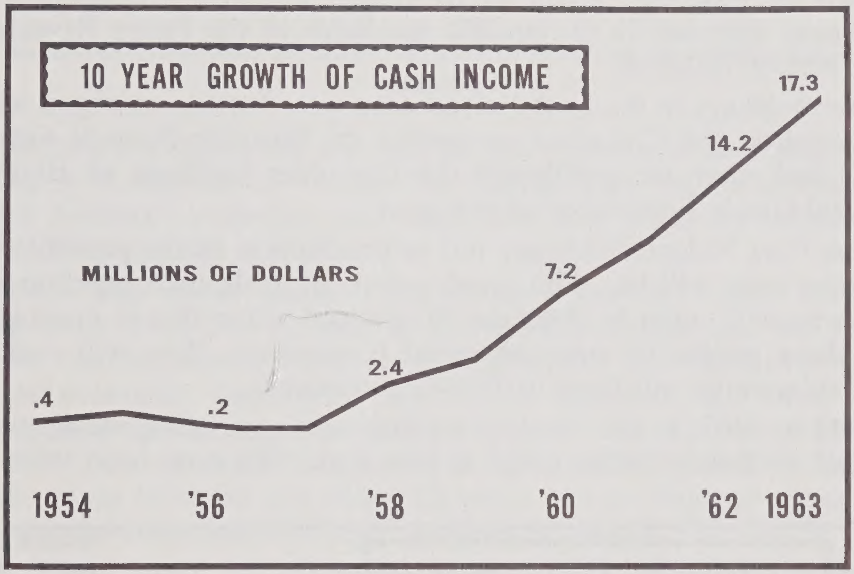


CHART 5

The real value and the potential of our land holdings are apparent when one considers the production and revenue results which are being achieved as we proceed with the exploration and development of these properties. On Chart 3 is a 10-year record of the growth of Pacific's crude oil production, increasing from 1,000 barrels per day in 1954 to over 20,000 barrels daily this year.

The growth of Pacific's gas production (Chart 4) has been even more rapid, rising from practically nil in 1956 to a rate of 157 million cubic feet per day in the current year.

The impact of these production increases on the revenues of the Company is seen in the 10-year summary of Pacific's cash income in Chart 5. In 1954, cash income was less than $500,000. This year it will exceed $17 million.

I have mentioned that a factor of prime importance in building Pacific has been the acquisition of the assets of other companies through the issuance of additional shares. I shall not refer to all these transactions but I will briefly review the more significant ones and point out how Pacific benefited by them.

One of our major transactions occurred in 1957 when we acquired the properties of Merrill Petroleums. These properties, which included substantial holdings in the rich Pembina oilfield, are today producing 25% of Pacific's oil.

The largest and in many respects the most significant of these various transactions occurred in 1960 when Pacific acquired all the Canadian holdings of the Phillips Petroleum and Sunray companies. The Phillips-Sunray holdings included large acreage in northeastern British Columbia and carried Pacific a long way toward the objective which we have now attained of becoming the dominant operator in the prolific gas fields of the Peace River and Fort Nelson districts.

Our holdings in the Fort Nelson area were further enlarged when we acquired the Canadian properties of Western Natural Gas in 1962 and when we purchased the Canadian holdings of El Paso Natural Gas in September of this year.

The Fort Nelson fields are not in production at the present time but they soon will be. The construction of a big-inch pipeline into this area will begin in the near future and when this is completed and these properties are connected to markets, they will make a very substantial addition to Pacific's revenues.

Late in 1962, as the result of a share exchange offer, we acquired control of Bailey Selburn Oil & Gas Ltd. We now hold 96% of

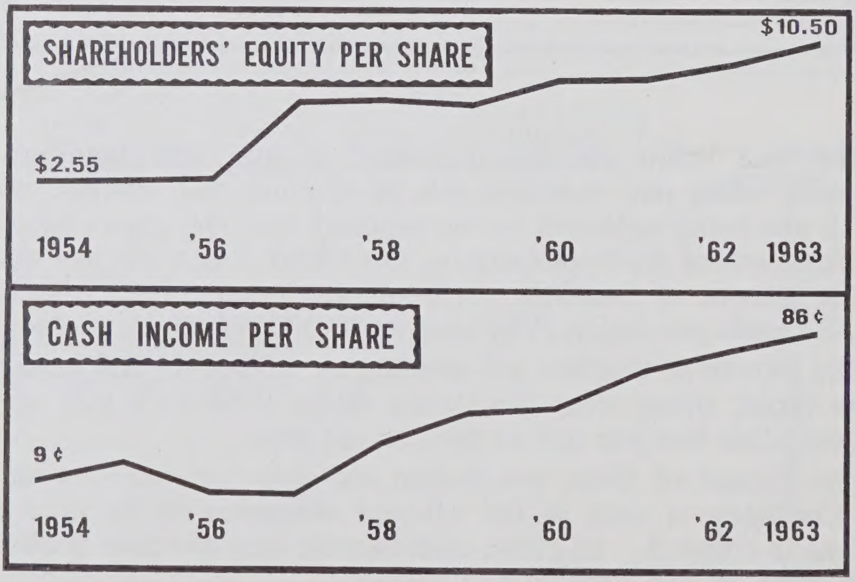


CHART 6

CONSOLIDATION LOWERS PAYROLL COSTS

PERSONNEL STRENGTH PRIOR TO MERGERS		TOTAL	PACIFIC PERSONNEL TODAY
PACIFIC	472		
MERRILL	38		
PHILLIPS SUNRAY	95	718	505
W.N.G.	21		
BAYSEL	92		

CHART 7

the common shares and the company's operations are fully integrated with our own. Since this integration we have reduced Bailey Selburn's expenses and increased their profit by more than $350,000 per year.

These and other lesser transactions have increased Pacific's share issue from five million to 20 million in the past six years. But as can be seen on Chart 6, the individual shareholder's equity has substantially increased. At $10.50 today it has more than quadrupled in value in the past ten years. On the lower half of the chart you will note that the cash income has followed a similar trend, rising from 9¢ per share 10 years ago to 86¢ per share this year on the considerably larger number of shares.

A major factor in achieving these steadily improving financial results is the greater economy and efficiency we are able to achieve through consolidation. This is seen quite clearly on Chart 7 which shows the personnel strength of Pacific and the various other companies which have been merged with it, before and after consolidation. We are producing ten times as much oil and nearly eight times as much gas as in 1957 and we are operating a greatly expanded marketing system. All this is being done with only about 70% of the number of employees required by the separate companies prior to consolidation.

Among the benefits reaped by Pacific through the various consolidations was the establishment of a close relationship with Phillips Petroleum Company. In return for its Canadian properties, Phillips obtained 5,700,000 Pacific shares. Phillips has purchased nearly $30 million worth of stock directly from Pacific in the past two years and, with other purchases in the open market, now

holds a total of 9,500,000 shares, representing 45% ownership of the Company.

There is, of course, no commitment that financial support of this kind will continue in the future. However, Phillips' co-operation in purchasing additional blocks of Pacific stock has been of substantial assistance in our mergers and expansion and it is a very tangible vote of confidence in the future of this Company.

We also benefit from the experience and facilities which are available to Pacific through the contact with this major and highly successful international company. This support is given in such a variety of ways that it is often difficult to describe but I think it is well exemplified by the modern service stations Pacific is building in Western Canada. Although we have adopted Pacific 66 as the trade mark for our own Company, the familiar 66 shield, the service station design, the color scheme, even the sales techniques of our personnel are identical with those which have been tested and proved in the Phillips marketing system. These are available to Pacific without any need for experimentation on our part.

Another illustration is in the natural gas liquids plant which Pacific is now building in southern Alberta. The plant was completely designed for us by the natural gas liquids experts of the Phillips company. As you undoubtedly know, Phillips is the leading producer of natural gas liquids in the United States. Pacific is aiming to reach that position in Canada and we intend to call on the invaluable experience and knowhow of the Phillips organization in this and other new projects in all aspects of the Canadian petroleum and petrochemical industry.

During the expansion of recent years, important changes have taken place in the directorate and management of the Company. Our Board of Directors is listed in the text of this talk. It is made up of men with a background of successful business experience as well as knowledge of the oil industry and finance in both Canada and the United States. I am sure you will agree on looking over this list that Pacific has a very strong and able directorate.

We endeavour to maintain this same backlog of experience among our executives and other personnel. Although the average age of all Pacific employees is a comparatively young 35 years, the careers of the 16 men in our management group aggregate more than 300 years of training in the oil business with Pacific and other major companies. More than half of all our employees have previously worked for other oil firms and we believe that this knowledge of the methods of other successful companies is a valuable asset in the day-to-day operations of Pacific Petroleums.

To give you some description of these operations, I shall call on Mr. Kelly Gibson, who is our Executive Vice President. Mr. Gibson is a native of Oklahoma who has been active in the Canadian oil industry since 1949.

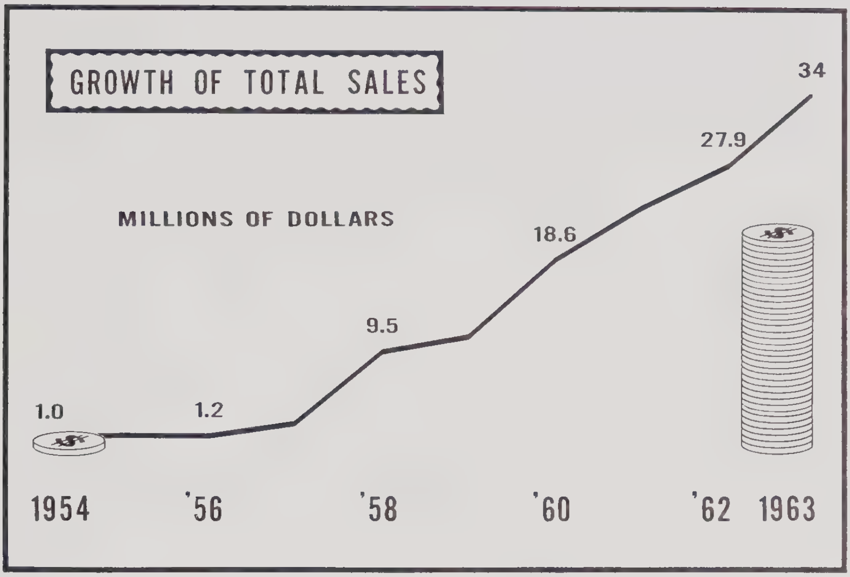


CHART 8

Mr. Gibson: A logical place to begin an analysis of Pacific's operations is on Chart 8 which reviews total annual sales over the past ten years. In 1954, the Company's sales income was $1 million. By last year, this figure had climbed to almost $28 million. In the first nine months of the current year, our sales were over $25 million and we project that they will exceed $34 million at the year-end for a 22% gain over 1962.

Chart 9 shows the sources of our sales income and how they have developed over the years. Until 1957, Pacific was almost

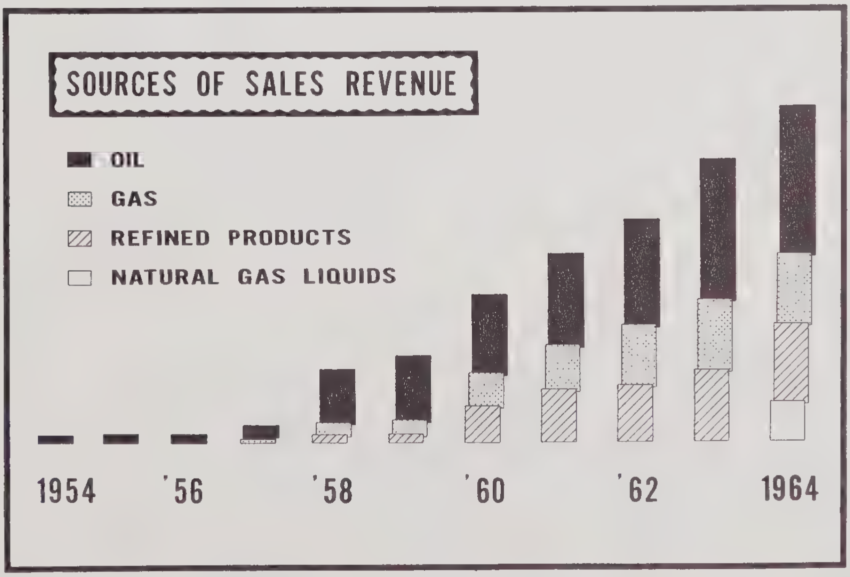


CHART 9

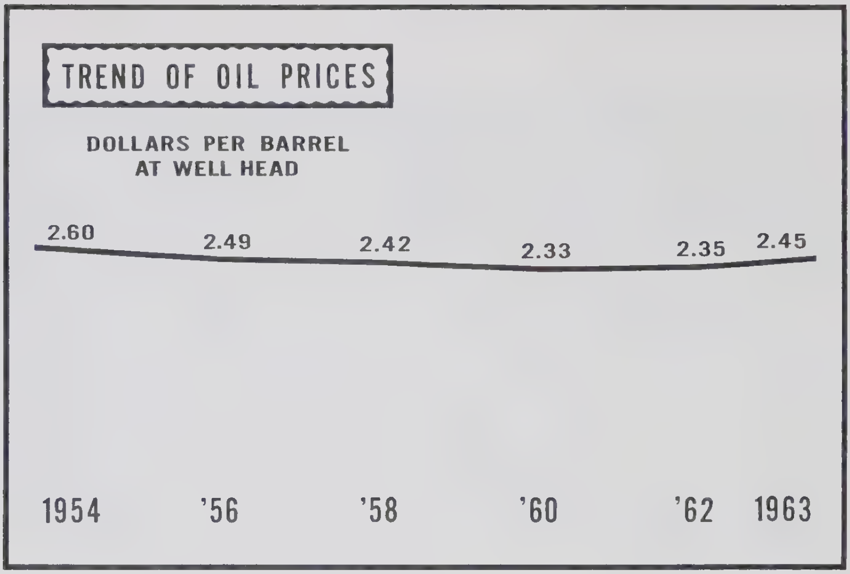


CHART 10

OIL LIFTING COSTS

PER BARREL

	1954	'56	'58	'60	1963
CANADIAN INDUSTRY AVERAGE	36 ¢	31 ¢	39 ¢	40 ¢	36 ¢
PACIFIC'S COSTS	36 ¢	38 ¢	42 ¢	35 ¢	32 ¢

CHART 11

BRITISH COLUMBIA OILFIELD DEVELOPMENT

CHART 12

exclusively a crude oil producer. In that year, when pipelines were built, gas revenue began to form an increasingly significant part of our income. In 1958, Pacific launched its refining and marketing operations and this revenue has steadily grown as a percentage of total sales. At the far right of Chart 9, a projection of next year's sales shows the new source of revenue from sales of natural gas liquids. We have produced comparatively small amounts of these liquids in the past but when the Empress plant is in production they will make a significant contribution to total revenue.

Since oil is our biggest source of income, I should like now to discuss briefly our oil production operations. A basic economic fact about oil, as all of you are well aware, is that its price has not kept pace with the general rising price curve of recent years. Chart 10 shows the trend in the Canadian industry where the sales price is now 6% less than it was ten years ago. There has been a slight increase in the Canadian oil price since 1961 but this was only an adjustment caused by devaluation of the Canadian dollar and unfortunately it does not represent a real upward trend.

There is very little that the individual company can do about oil market prices but we at Pacific have been trying to maintain our profit margin by controlling our production costs. The measure of our success can be seen on Chart 11 showing our oil lifting costs and those of the industry as a whole. Although our costs in 1958 were above the industry average, we have reduced them since that time by 10 cents per barrel and this has enabled us to improve the profitability of our oil operations during this period. We cannot claim that Pacific discovered any simple formula for lowering costs. It is the end result of strict, day-to-day control of expenses from head office right out to the field.

Pacific's oil production operations closely parallel those of the Canadian industry as a whole because we operate in practically all the oil producing areas. About 80% of our Canadian production comes from the fields of Alberta such as Pembina, Redwater, Kaybob and Westerose. There is a widespread blanket of cretaceous sediments under this area. Devonian Reef conditions have also formed large stratigraphic traps with pay zones reaching a maximum thickness of 500 feet. It is in this area that most of Canada's oil is produced.

Outside Alberta, our most productive oil operations are being carried on in the lower Peace River district of northeastern British Columbia. Pacific has quite extensive land holdings in this area and because it is becoming increasingly important in the Company's oil production, it is shown in detail here on an area map (Chart 12). These various oil fields were discovered over the years during exploration for natural gas but the area did not begin to undergo active oil development until the Western Pacific oil pipeline was completed in 1962 to provide a market outlet for the

first time. In the past two years intensive development drilling in the area has raised daily production from 2,800 to 38,000 barrels.

The largest field and our largest holdings are at Boundary Lake where the oil is found in shelf limestones of Triassic age. The pay is not thick, averaging less than 20 feet, but the field is quite widespread and already has 244 productive wells. Although not fully developed as yet, its recoverable reserves are estimated at more than 200 million barrels.

An attractive aspect of this British Columbia oil area is that there is no market prorationing. Unlike Alberta, where they are limited to about 45% of capacity, producers in British Columbia are able to operate at the maximum output that good conservation practice will permit. The reason for this is that the Western Pacific pipeline was built to serve the markets of southern British Columbia, including the major city of Vancouver, where the refinery throughput is more than 75,000 barrels per day. The pipeline's daily throughput is as yet supplying only half this requirement so there is strong incentive to increase this area's oil production. Existing fields are now nearing full production and future efforts will be directed toward exploration for additional pools. In view of the oil discoveries already made and the large natural gas accumulations throughout this area, it is reasonable to expect that additional oil fields will be found. This prospect is particularly good for Pacific because, with our large landholdings here, we are in a position to benefit from any significant new oil development.

In oil exploration in other areas, Pacific has had moderately good success in the past year. With other companies, we have participated in the discovery and early development of the Snipe Lake field in Alberta, which is generally regarded as the best strike made in Canada in the past year. To date, five productive wells have been drilled on our land with net pays up to 44 feet and initial production rates of more than 200 barrels per day. Pacific also participated in a discovery at Lost Horse Hills, in southern Saskatchewan, and earlier this year we made a Slave Point oil discovery at Shannon in north central Alberta. The Shannon discovery well is north of the big Swan Hills field and it is significant because it shows that the productive Swan Hills reef extends northward into this area where Pacific has substantial acreage. At Twining, in southern Alberta, we recently proved an extension of this oil field on to our land.

On the general subject of oil exploration and discovery in Canada, it would be unrealistic to state that the results obtained in recent years have been satisfactory. A number of new fields are being discovered each drilling season but, for the past five years, there has not been a major oil strike comparable to those of Leduc, Redwater, Pembina, Swan Hills or Boundary Lake. One reason for the decline of the discovery rate was that many Canadian

companies, including Pacific, reduced their oil budgets to concentrate on finding natural gas. The oil industry was producing at less than half its capacity and there was also a tendency to invest in development of proven properties rather than in wild-catting.

The Canadian market has improved under Canada's National Oil Policy and there has been an upturn in exploration activity. This year shows a 23% increase over 1962 in the number of exploratory wells. There also has been much higher bidding for drilling reservations and a new record price for wildcat land was set recently when the Pan American Petroleum Corporation paid $3.2 million for a 12,000 acre reservation in the Grande Prairie district of Alberta. Pacific holds considerable land in this area.

With the exploration, development and acquisition program we have carried out in recent years, Pacific has maintained a 4-to-1

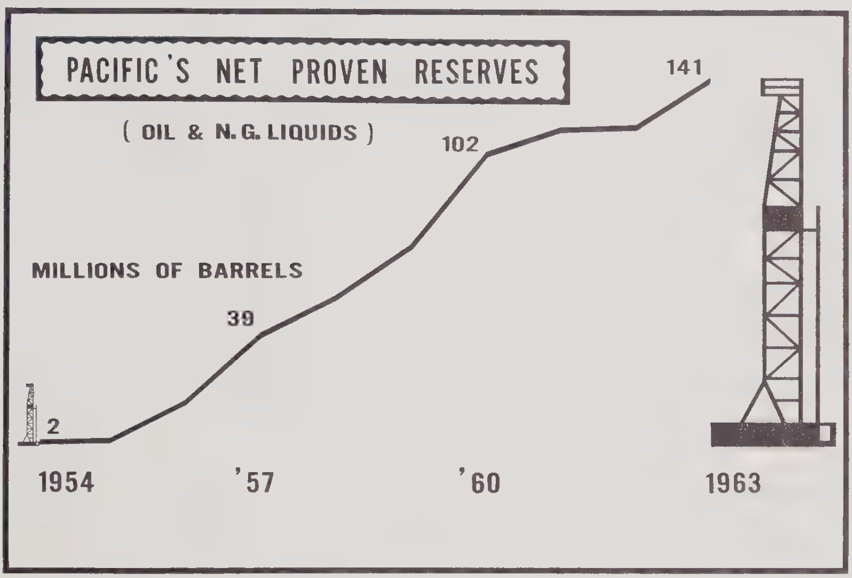


CHART 13

ratio between the growth of our oil reserves and production. Chart 13 shows our present reserve position of 141 million barrels of oil and natural gas liquids, a sufficient supply to last 18.5 years at current production rates. I would like to point out that these reserve figures are computed according to the rules laid down by the United States Securities and Exchange Commission and are submitted for S.E.C. approval each year. These figures do not include any so-called "probable" reserves and it should be noted that they give us credit only for the additional production we will get through secondary recovery in the Pembina field. We are currently installing secondary recovery facilities in the Boundary Lake and Kaybob fields and we plan to do the same in the Peejay field. If our experience in Pembina is repeated, this will double our reserves in these reservoirs.

Any calculation of a Canadian company's reserves is incomplete if it does not take into consideration that company's position with respect to the Athabasca oil sands. These deposits in northern Alberta are Canada's and perhaps the world's largest oil reservoir, containing an estimated 300 billion barrels of heavy viscous oil. The impregnated sand is very close to the surface, so close in fact that the oil collects in puddles on a hot summer day. Unlike the oil shales in other parts of the world which require expensive depth mining, these sands can be removed from an open pit after the shallow overburden has been stripped off. To date, $100 million has been invested by leading companies to develop economic methods of separating the oil from the sands and several processes have reportedly been perfected to produce this oil at competitive cost.

While production is now considered feasible, the Government of Alberta wants to make certain that this Athabasca oil does not enter the limited Canadian market in such quantities that it would jeopardize the conventional oil industry. The announced government policy is to limit the Athabasca crude to some 5% of the total demand for Alberta oil. With this ratio in mind, they have issued only one permit to date to begin production at the rate of 31,500 barrels a day in 1969. However, the company which got the permit recently asked for an extension of time to finance the project and for a higher production quota that would improve its economics. It now appears that the government must either change its policy and permit a higher initial production rate or development must be delayed until the market demand for this oil increases to an economic level.

While it may take some years, we at Pacific have always believed that the Athabasca deposits will eventually be produced. We have held acreage in this area since the early days of the Company and early this year we doubled our holdings to more than 150,000 gross acres. Pacific has not seen fit to invest large sums in experimentation but we have core sampled and evaluated most of our properties and we know that the Company is in a position to share fully in the development whenever it goes ahead.

In concluding this review of oil operations, I will mention briefly our holdings in Venezuela where we have an average interest of nearly 5% in three concessions. Pacific entered Venezuela in 1959 in partnership with Phillips Petroleum and several other companies and our initial investment was $5,000,000. The operation has proved to be quite successful and Pacific's present share of the production, after royalties, is 2,250 barrels a day, all of which is being sold. This production will be increased in 1964 as a result of a recent discovery well which was completed last month and flowed at a rate of 4,800 barrels a day.

Turning now to Pacific's natural gas production, we begin with

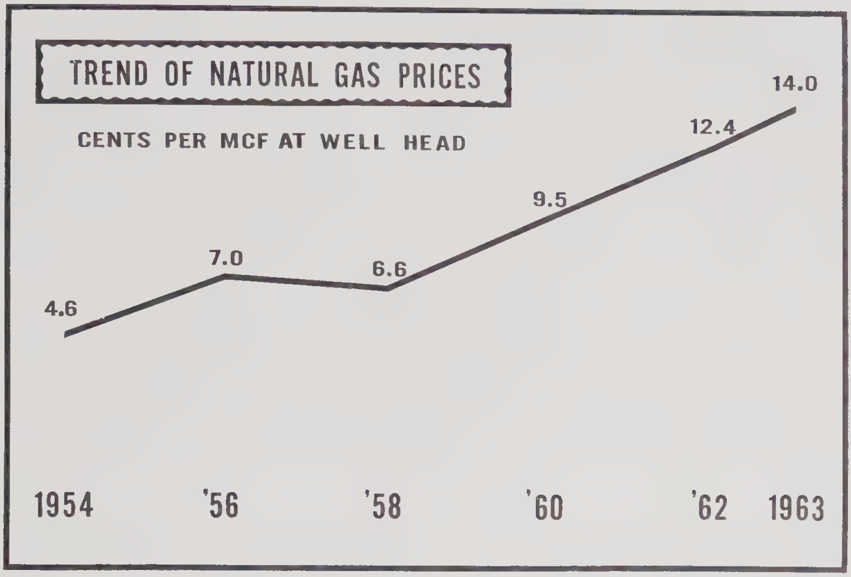


CHART 14

Chart 14 showing the price trend which is considerably more favorable than that for crude oil. Our price for natural gas has more than doubled since Pacific began large-scale production in 1957 and we expect this upward trend to continue. Many of the contracts now in effect contain price escalation clauses for future years. Any new contracts which we negotiate for fields which are not now connected to pipelines will be at the higher price levels.

Despite the more favorable price trend in the gas industry, Pacific is applying to its gas production the same cost control effort as it makes with crude oil. Here too, as Chart 15 shows,

GAS LIFTING COSTS

PER THOUSAND CUBIC FEET

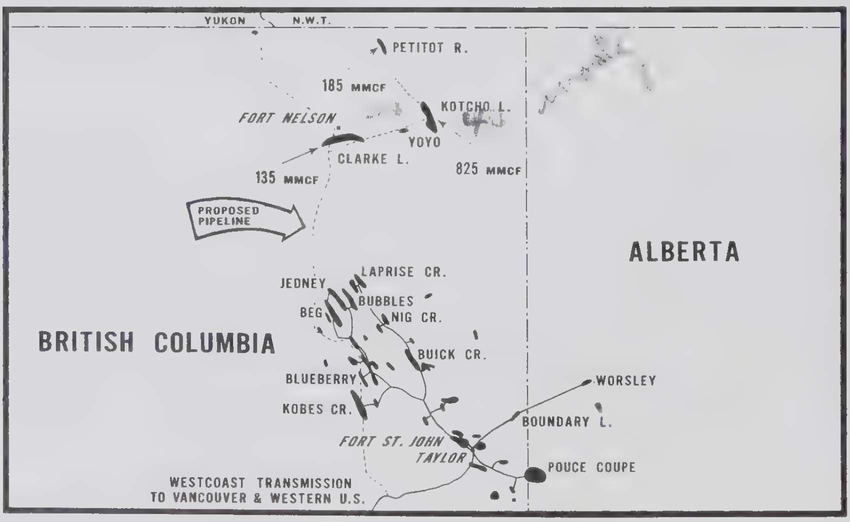
	1954	'56	'58	'60	1963
CANADIAN INDUSTRY AVERAGE	3.0¢	2.0¢	2.0¢	1.5¢	2.0¢
PACIFIC'S COSTS	3.1¢	2.1¢	2.0¢	1.0¢	1.0¢

CHART 15

we have had good results and have cut our gas lifting costs in half since 1958.

As Mr. Getgood stated, Pacific is Canada's second largest gas producer. There are three major pipeline systems transporting gas from Alberta and British Columbia—Trans Canada, Westcoast and Alberta Natural. Pacific supplies all of them but, since the major portion of our gas production is in northeastern British Columbia, the bulk of our sales are to Westcoast.

The map of northeastern British Columbia in Chart 16 gives a better closeup of the gas fields in this area where Pacific holds a dominant position. Our Company was the first to begin large-scale gas exploration here and it is no exaggeration to say that Pacific discovered or participated in the discovery and development of practically every gas reservoir that has been established to date



N.E. B.C. GAS FIELDS

CHART 16

in this area. At the present time the fields in the Peace River area which are connected to the Westcoast pipeline are producing some 340 million cubic feet per day and Pacific is supplying one-third of the entire gas production of this region.

The potential of this Peace River area is by no means fully explored and many additional reservoirs are likely to be discovered here. However, it now appears that prolific as the Peace River section may be, its production will be small in comparison with that of the Fort Nelson area which lies some 300 miles north. On this map are shown some of the phenomenal gas wells which have been drilled in the Fort Nelson area to date. On Pacific land at Kotcho Lake, there is one well which had an absolute open flow potential of 825 million cubic feet per day. In the Petitot Field, in the Yoyo area, and at Clarke Lake we have brought in wells in

each field with absolute open flow potentials of more than 100 million cubic feet per day. Our overall success rate since we began exploration up there is well over 40%, with 32 successful wells out of 75 drilled.

The most favorable aspect of the Fort Nelson area as far as Pacific is concerned is the great extent of our land holdings. I have mentioned that we were the first company to obtain exploration rights in this part of Canada. As a result of our later acquisitions from Phillips, Sunray, Western Natural and El Paso, we have greatly expanded our initial acreage and now hold nearly 60% of the most attractive land. Of 47 productive wells now drilled in the area, Pacific has interests in 32. Although this number of wells in such a vast area is only a small scratch of exploration, the reserves already proved are estimated to exceed two and one-half trillion cubic feet.

As Mr. Getgood stated earlier, a major pipeline will be built into the Fort Nelson area in the near future. The pipeline will connect with the Westcoast system west of Taylor, B.C. Farther south, at the Canada-U.S. border, Westcoast is inter-connected with all the major gas pipeline systems of the western United States. It is into this area — from the lower mainland of British Columbia down to northern California—that our gas will be delivered. The U.S. market is now importing more than a billion cubic feet of gas per day and these import requirements are going to increase annually at the rate of 600 million feet per day over the next ten years. With demands of this scale, we have no doubts about selling all the gas we can produce.

Our capability to meet future market demand is shown in the record of our gas reserves on Chart 17. We are adding new gas at a

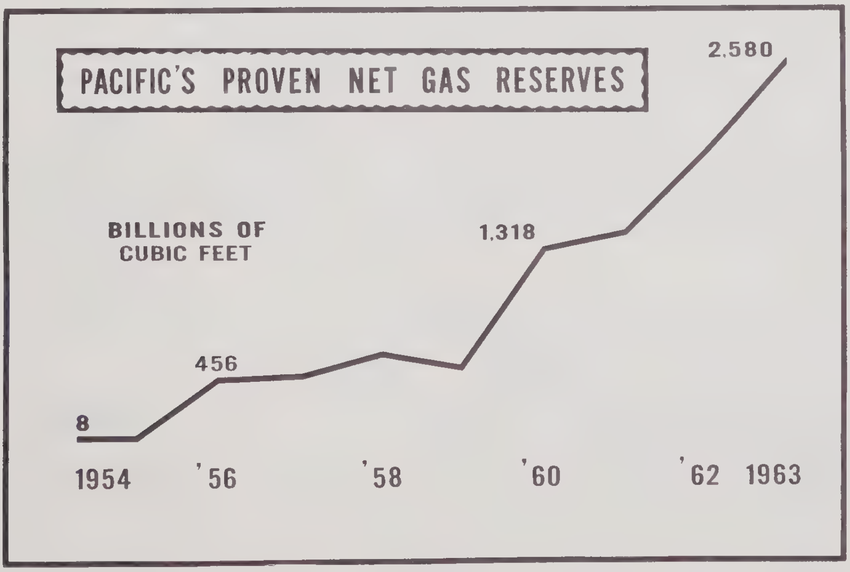


CHART 17

nine-to-one ratio to our current production. Our total reserves represent a supply that will last for more than 40 years at Pacific's current production rates.

In the breakdown of our sales figures which was shown earlier, attention was drawn to the fact that refining and marketing were playing an increasingly important part in our operations. Chart 18 shows how these sales have increased on a gallonage basis in recent years.

Our refining operations are carried out at a 9,000-barrel-a-day refinery situated at Taylor, B.C. Our refinery is operated in conjunction with a gas processing plant and we are able to manufacture a wide range of products: aviation gasoline, motor fuels, diesel fuel, asphalt, propane and butane. We market our own products in the Peace River area and we make exchanges there with other companies so that they supply our stations from their refineries in other areas.

The most economical and profitable way to dispose of refinery products is through the Company's own marketing system and this is why we have been putting an intensive effort into the expansion of our retail marketing operations. Until two years ago, our stations were concentrated in the Peace River area, along the Alaska Highway. Since then we have spread into Alberta as far south as the U.S. border, into southern British Columbia to the city of Vancouver and also into Saskatchewan.

Pacific faces the fact that we are comparatively late starters in the business and that gasoline retailing in Canada, as in the U.S., is a very crowded and competitive field. However, there is one major advantage in our position as a newcomer. Unlike some companies

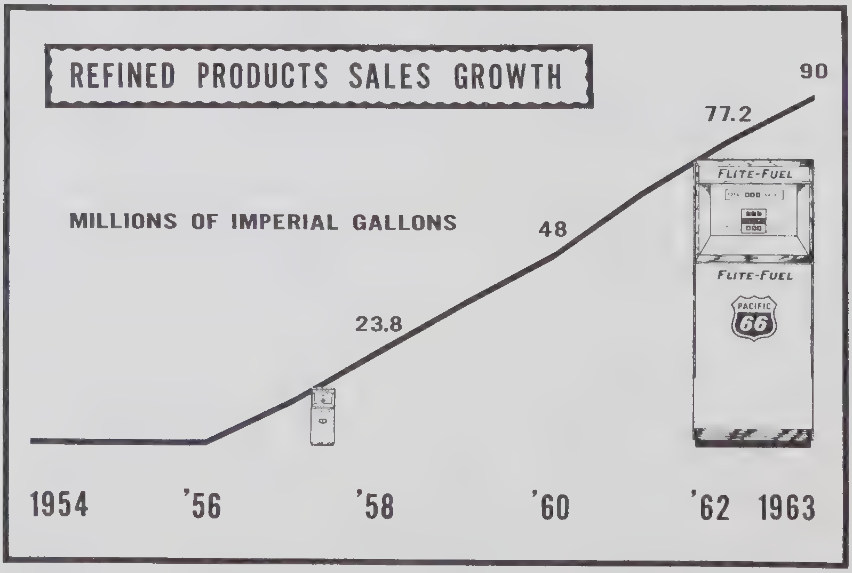


CHART 18

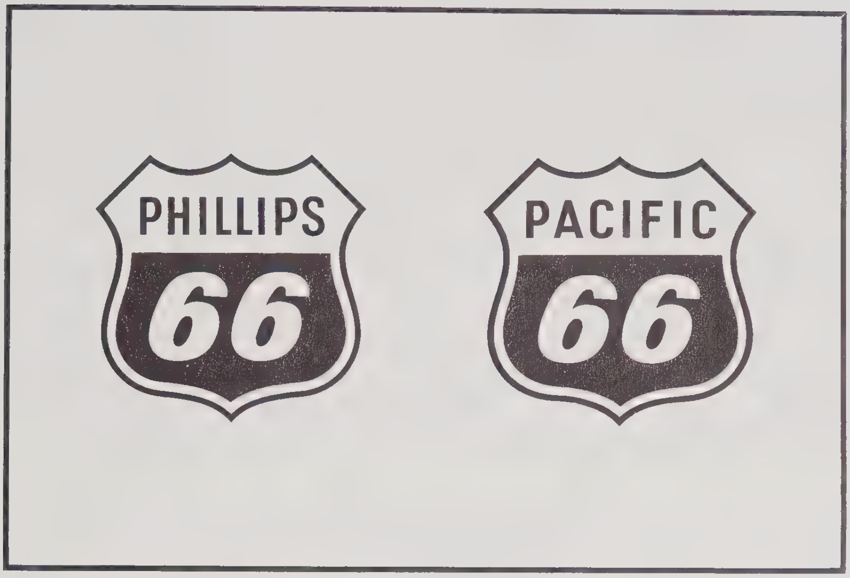


CHART 19

with widespread operations, we do not have a large number of uneconomic stations that have been rendered obsolete by shifts of population and by changes in traffic patterns. Our policy is to maintain this efficiency by opening new stations only when we can be reasonably certain they will operate at a good profit.

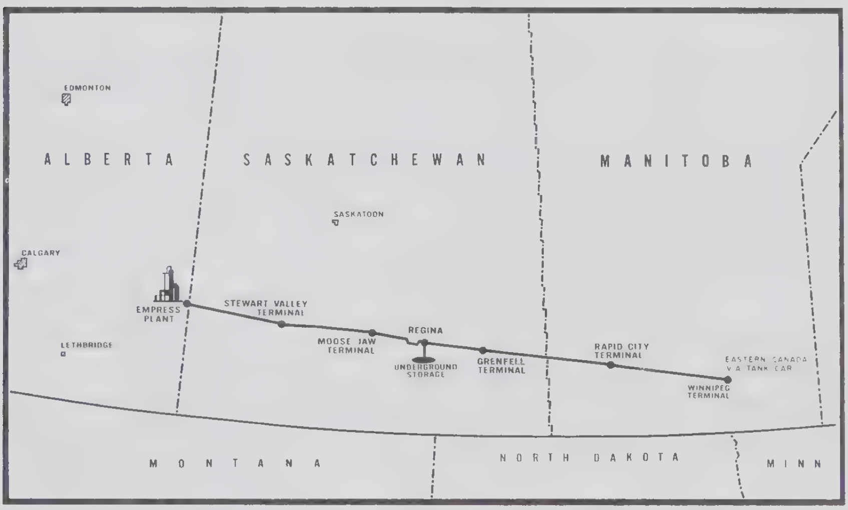
Pacific does not need either large numbers of stations or extensive advertising to impress its sales image on the public. We have, as you see on Chart 19, adapted the famous Phillips 66 trade mark to our purposes. But except for this minor change, our marketing image is very closely identified with that of the Phillips organization in the United States. Down through the years, there has been a very appreciable over-lapping of Phillips 66 advertising into Canada, not only through the U.S. advertising media, but by the very heavy Canadian tourist traffic to all the states where Phillips operates. For these reasons, we believe that in our expansion we do not have to invest in advertising and promotion on the same scale as if we were launching an entirely new or unknown brand of gasoline.

At the present time, we are concentrating on billboard advertising along the streets and highways in the vicinity of our station sites. The theme of the advertising "The New Force in Gasoline" is one which we developed to emphasize that we are a new marketer in the area but we are giving almost equal prominence to the familiar 66 shield in order to draw any dividends we can get from the Canadian recognition of that successful trade mark.

Now I would like to turn to our latest project and give you a brief description of our Empress plant and pipeline which will put

Pacific into a leading position as a manufacturer and marketer of natural gas liquids (Chart 20). The plant will be built at Empress on the border of Alberta and Saskatchewan at the point where the Trans Canada natural gas pipeline originates. All the gas in the Trans Canada line, which now carries 750 million cubic feet per day, will be routed into our plant, its excess liquids will be extracted and the gas will then be returned to Trans Canada.

The propane and butane, comprising about 80% of the liquids extracted in the Empress plant, will be transported by a 570-mile pipeline as far east as Winnipeg. This will be a 6⅝" diameter pipeline, large enough to carry the maximum throughput of our Empress plant. There will be terminals at the various points listed on this map and from these LPG will be distributed by truck and tank car throughout the populated areas of Saskatchewan and



ROUTE OF PACIFIC'S LPG PIPELINE

CHART 20

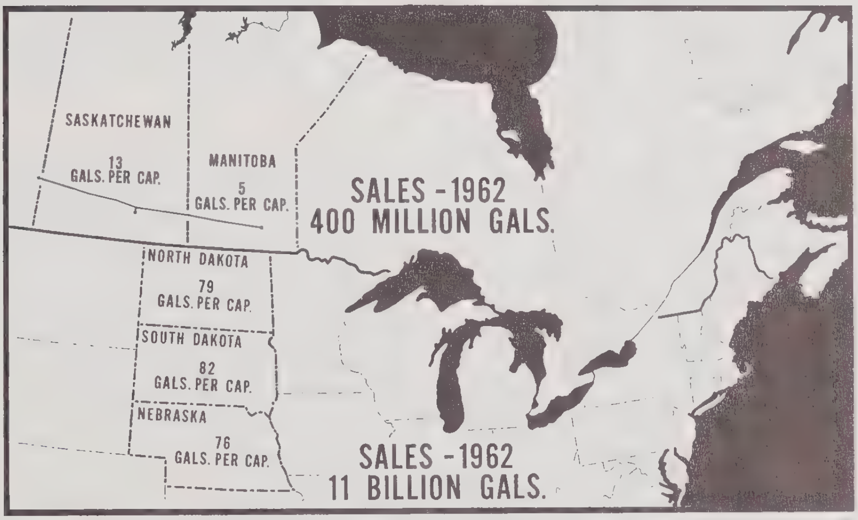
Manitoba. At Regina, we are building a storage reservoir in a large underground salt formation and in this we will be able to store up to 500,000 barrels of propane for peak sales periods.

The construction of the pipeline is now 80% complete and the Empress plant is rapidly taking shape. We expect this project to be in operation early in the new year, producing some 12,000 barrels of liquids per day at the start and rising to 20,000 barrels per day when the plant is in full production.

To discuss the LPG market outlook for our Company, I will call on Mr. Getgood who is well qualified to comment on this subject. Mr. Getgood was formerly general sales manager of Phillips Petroleum, a company which pioneered in this field and became the largest LPG producer in the United States. I thank you for your attention, Gentlemen, and give you Mr. Getgood:

Mr. Getgood: The growth potential of the LPG market in Canada can be judged by looking at the facts revealed in economic surveys on which we based our decision to launch the Empress project. On Chart 21 are shown some of the present wide variations between U.S. and Canadian markets for LPG. In Nebraska, and in North and South Dakota, the climatic, population and economic conditions are very similar to those in the settled areas of Saskatchewan and Manitoba. Yet, as you will note, per capita sales of propane in these U.S. markets are as much as 16 times greater than in corresponding areas in Canada.

These U.S. markets receive plentiful, economically-priced supplies of LPG from marketing systems which have been developed over the years. When the Empress project is in operation and similar service is available in Canada, the Saskatchewan and



LPG MARKETS IN CANADA & U.S.A.

CHART 21

Manitoba markets will develop quickly toward the levels of those in neighboring areas of the U.S.

The potential of the overall Canadian market is evident in comparing total U.S. and Canadian usage of LPG. Some 11 billion gallons were sold in the U.S. last year against 400 million in Canada, a ratio of 27 to 1. In the consumption of oil and many other commodities which reflect proportionate living standards, Canada stands at a ratio of about 1 to 11 with the United States. On this basis, the potential Canadian LPG market is one billion gallons annually or two and a half times what is sold today.

Pacific is in a perfect position to meet this potential demand. With the first and only LPG line from Alberta to central Canada, Pacific will hold all the competitive advantages of shipping LPG

by pipeline instead of tank car. And even though we will be moving our product from Winnipeg eastward by jumbo tank car, the fact that we have brought it part-way by pipeline will give us a significant price advantage throughout the big markets of Ontario and Quebec.

Our initial permit for the Empress project authorizes export of 80 million barrels of propane and butane from the plant in the next 17 years. We are free to export all other liquids such as iso-butane and pentanes plus and these will amount to an additional 20 - 25 million barrels. This is only the initial export, which is limited to 17 years in order to be concurrent with the present Trans Canada permit. However, since our permit was granted, Trans Canada has applied to raise its throughput to one and a half billion feet per day and to extend its term to a full 25 years. Pacific plans to have its own permit extended in the same way so that we will increase the permissible export from our plant by 50%. This will raise the total to more than 150 million barrels and could be considered equivalent to adding that amount to Pacific's liquid reserves.

The manufacturers' net prices for these liquids are variable but a rule-of-thumb average price for our Empress output would be $2 per barrel. When you project this with the 150 million barrel production figure I have cited, you get a fair estimate of the revenues this new Pacific venture will generate in the years ahead.

Now, in summing up, I would like to comment briefly on the other phases of our integrated operations and try to provide some guidelines by which you can make judgments about the Company as a whole. A starting point for this is on Chart 22 which shows

FINANCIAL SUMMARY 1963

(MILLIONS OF DOLLARS)

	FIRST NINE MONTHS (PRELIMINARY)	FULL YEAR (ESTIMATED)
SALES	$25.5	$34.0
OPERATING EXPENSES	$12.8	$16.7
NET CASH INCOME	$12.7	$17.3
DEPRECIATION ETC.	$ 9.6	$12.5
NET OPERATING PROFIT	$ 3.1	$ 4.8
PREF. DIVIDENDS	$ .6	$ .8
NET PROFIT	$ 2.5	$ 4.0

CHART 22

1963 SALES	FUTURE GROWTH
OIL $17 MILLION	6 % + PER ANNUM
GAS $8 MILLION	100 % INCREASE
REFINED PRODUCTS & LPG $9 MILLION	55 % INCREASE IN 1964

CHART 23

results for the first nine months of this year. These are preliminary figures, subject to confirmation in the third quarter report to our shareholders. To the right of this chart are our estimates of how the year-end figures will look.

Although it is a period of low demand for natural gas, we had a good third quarter. The Company showed a consolidated net profit of close to $1 million which increased the net for the first nine months of the year to $2.5 million. We are estimating a net operating profit of $4.8 million for the full year. Out of this will be paid almost $800,000 in dividends on the preferred shares of Bailey Selburn, leaving a net profit of $4 million. This will be a 33% increase over last year and we feel that it is quite a satisfactory gain, particularly in view of the fact that operating expenses were increased substantially this year due to the expansion of our marketing and manufacturing operations.

On Chart 23 the estimated 1963 sales figure from the previous chart is broken down into its component parts: $17 million from crude oil sales, $8 million from natural gas and $9 million from refining and marketing. At the right of Chart 23 are listed some of our estimates about the growth rate of these various phases of our Company in the future.

The projection of a 6% plus annual growth rate in oil production is based on the expectation that the Canadian Government will soon make its promised announcement of a new production schedule for the National Oil Policy which is due to expire at the end of the current year. The original National Oil Policy, laid down in 1961, set a production goal of 800,000 barrels per day

for the Canadian industry to achieve at the end of 1963. This rate will be attained by the year-end and the general opinion is that a new end target of one million barrels per day will be set for the next three years. This will necessitate an average annual increase of about 6%.

At Pacific, we are confident that our own oil production rate will keep pace with this industry-wide average. We will increase the production of existing wells along with other companies but, because of our exceptionally large land holdings and active exploration programs, we also expect to add many new producers.

Pacific is also fortunate in having large holdings in British Columbia where, as Mr. Gibson pointed out, there is no market prorationing and the growth rate is above average. It is due to these factors that we have placed a plus sign beside the estimate of a 6% annual growth for the whole industry. With reasonable success in our exploration efforts in British Columbia and elsewhere, this plus could mean a substantial addition to our oil production in the near future.

It may also be noted that we are anticipating an increase of at least 100% in our natural gas sales. Most of this additional gas will come from the Fort Nelson area of British Columbia. The new pipeline to this area will have a capacity of 225 million feet per day and we expect to supply at least 60% of its throughput. This and a very modest increment in other fields in Alberta and British Columbia will nearly double our present gas production.

This, of course, will be only the beginning of Fort Nelson gas development. The great scope for exploration, the remarkable discovery rate and the prolific flows of the Fort Nelson wells which Mr. Gibson has described to you make us certain that this area and the large land holdings Pacific has acquired there will pay off richly in the future.

We project a 55% increase in our refined product and LPG sales in the coming year. Some of this new revenue will come from the start-up of our Empress plant early in 1964. The LPG sales outlook is very promising and we already have signed sales contracts for more than 50% of the first year's production. We are also budgeting for increased cash income from our marketing system as a result of the service station expansion program which Mr. Gibson described. You will note that I am not going beyond 1964 in forecasting our refined products and LPG sales revenue. This phase of our business is growing very rapidly and, with the new Empress project and our expanding marketing system, it is difficult to make an accurate sales projection for more than a single year.

A final and highly significant element to consider in projecting the earnings prospects of our Company, is the tax position which is

detailed on Chart 24. As a result of our heavy outlays for exploration and development in past years, Pacific alone has accumulated expenditures of $35 million which will be available as deductions from future taxable income. All the Phillips, Sunray, Bailey Selburn and Western Natural properties which we acquired had substantial backlogs of expenditure and these will accrue to Pacific. Almost the entire price we paid for the recent purchase of the El Paso properties will be deductible as cost of acquiring these lands. With this latest addition, Pacific has total deductions of $100 million to apply against taxable income in future years.

Gentlemen, the purpose of a presentation such as we have now made is to give you information about our Company and in doing so to communicate to you our confidence that it is a sound investment for you and the investors you represent. With the proposed

DEFFERRED EXPENSES FOR INCOME TAX

PACIFIC PETROLEUMS	$35.0 MILLION
PHILLIPS PETROLEUMS	$30.5 MILLION
SUNRAY	$ 1.5 MILLION
BAILEY SELBURN	$ 6.0 MILLION
WESTERN NATURAL	$ 12.0 MILLION
EL PASO	$ 15.0 MILLION
TOTAL	$100.0 MILLION

CHART 24

tax on foreign securities now before the U.S. Congress, this might appear to be an unfavorable time to be discussing participation in a Canadian or any other foreign company to an American audience. In case you have any reservations on this score, may I point out to you that more than 80% of Pacific's common shares are now held by U.S. investors. There is an active market in Pacific securities throughout this country and an ample supply to permit easy and tax-free trading of them among American citizens. Even if it becomes law in its present form, the proposed tax measure will have little or no effect on our securities and it need not influence any American investor's decision about our Company. Such decisions, we believe, can be firmly based on the facts we have given here today about Pacific Petroleums Ltd. in its present role and particularly with its future potential as The New Force in the Canadian Petroleum Industry.

10 YEAR FINANCIAL AND STATISTICAL SUMMARY*

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963 Estimated and Projected
Cash Income ($000)	$ 400	$ 866	$ 185	$ (210)	$ 2,360	$ 3,792	$ 7,229	$10,253	$14,199	$17,300
Depreciation, depletion etc. ($000)	347	486	655	1,385	6,559	7,366	9,722	9,032	11,164	12,500
Net Profit (Loss) ($000)	$ 53	$ 380	$ (470)	$ (1,595)	$(4,199)	$(3,574)	$(2,493)	$ 1,221	$ 3,035	$ 4,800**
Per Common Share:										
Cash Income	$ .090	$ .194	$ .041	$ (.033)	$ .302	$ .465	$ .489	$ .688	$ .800	$ .860
Net Profit (Loss)	$ .012	$ .085	$ (.103)	$ (.253)	$ (.537)	$ (.438)	$ (.169)	$ .082	$ .171	$ .210
Net Assets before Long Term Debt	$ 2.82	$ 3.02	$ 6.27	$ 11.85	$ 14.63	$ 13.63	$ 12.66	$ 12.33	$ 12.55	$ 13.50
Shareholders' Equity	$ 2.55	$ 2.64	$ 2.77	$ 7.59	$ 7.79	$ 7.50	$ 9.03	$ 9.12	$ 10.05	$ 10.50
Total Net Sales ($000):										
Oil	$ 988	$ 1,211	$ 1,195	$ 1,875	$ 6,599	$ 8,020	$ 9,844	$11,539	$13,183	$17,000
Gas	7	17	28	509	1,824	1,755	4,050	5,482	7,506	8,000
Refined Products	—	—	—	9	1,071	1,179	4,693	6,801	7,207	9,000
Total	$ 995	$ 1,228	$ 1,223	$ 2,393	$ 9,494	$10,954	$18,587	$23,822	$27,896	$34,000
Working Capital ($000)	$(5,324)	$(3,245)	$ 3,350	$(16,800)	$ 5,937	$ 1,883	$ 1,366	$ 1,646	$ 3,323	$ 1,000
Daily Oil & Liquids Production (Bbls.)	1,045	1,340	1,316	1,983	7,548	9,661	12,294	14,676	16,730	20,500
Daily Gas Production (Mcf.)	423	741	1,110	21,602	75,808	69,000	117,000	139,000	166,000	157,000
Total Net Acreage (000 acres)	2,706	3,459	2,874	3,603	3,717	3,428	5,155	4,606	3,999	5,000
Productive Wells (net)	21	20	25	190	291	329	509	545	602	810

NOTES: * *In some instances figures for earlier years have been changed from those previously published in order to reflect subsequent changes in accounting policies.*

** *Before dividends payable on Bailey Selburn preferred shares.*

(All Amounts are in Canadian Dollars)

PACIFIC PETROLEUMS LTD.

BOARD OF DIRECTORS

JOHN GETGOOD, *President and Chief Executive Officer, Pacific Petroleums Ltd.*

KELLY H. GIBSON, *Executive Vice-President, Pacific Petroleums Ltd.*

A. PATRICK BOWSHER, *Vice-President and Treasurer, Pacific Petroleums Ltd.*

HUDSON O. HARDER, *Executive Vice-President, Sunray DX Oil Company*

JOHN M. HOUCHIN, *Executive Vice-President, Phillips Petroleum Company*

STANLEY LEARNED, *President, Phillips Petroleum Company*

EDWARD S. MAGOWAN, *Vice-President, Kormendi and Co., Inc., New York*

EDWIN C. MCDONALD, *Executive Vice-President, Metropolitan Life Insurance Company*

FRANK M. MCMAHON, *President, Westcoast Transmission Company Limited*

GEORGE L. MCMAHON, *Vice-President, Westcoast Transmission Company Limited*

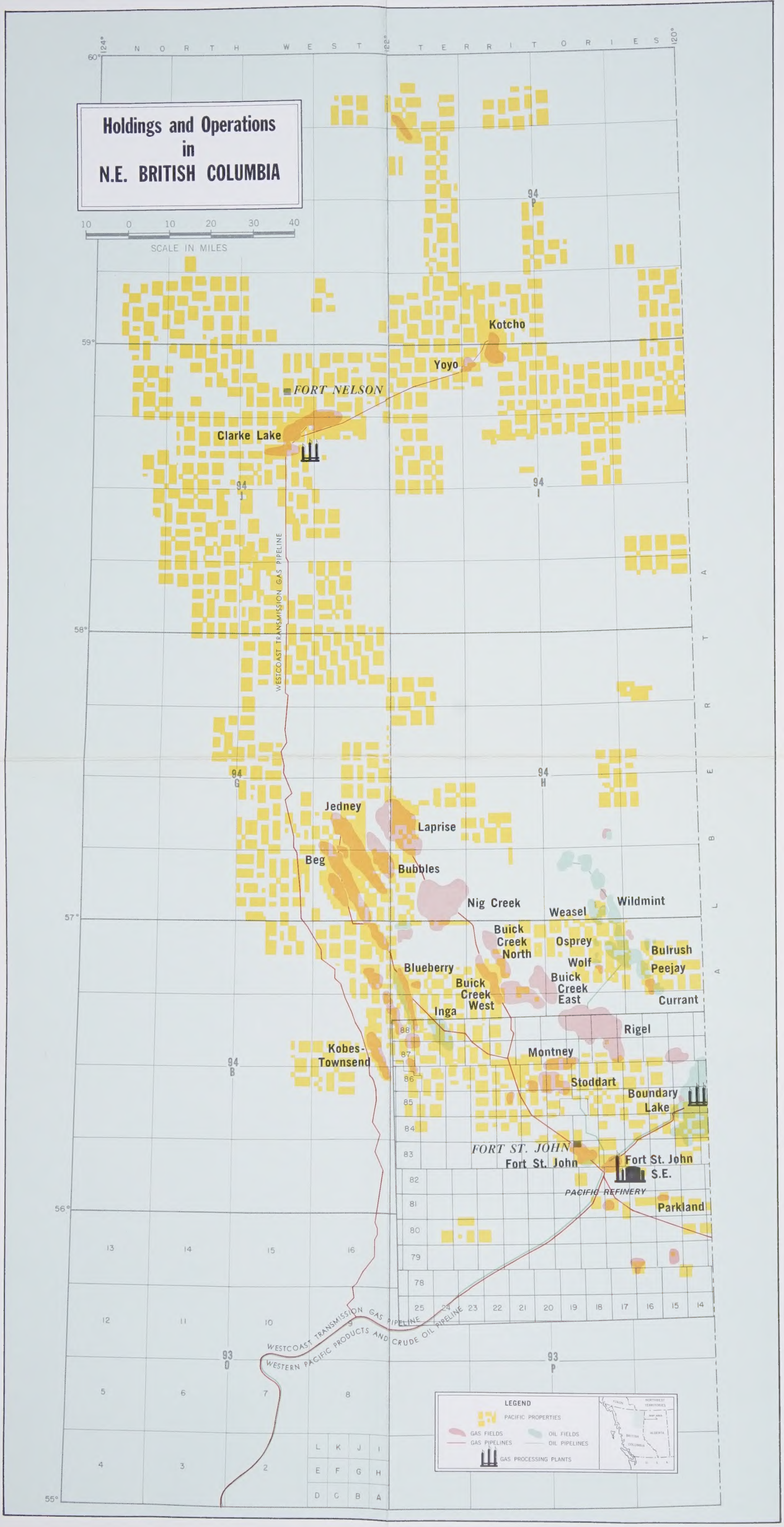
COLIN WEBSTER, *President, Canadian Import Company Limited, Montreal, Quebec*

NORMAN R. WHITTALL, *President, Norman R. Whittall Limited, Vancouver, B.C.*

PACIFIC 66

Pacific's Properties

MAPS SHOWING PACIFIC PETROLEUMS LTD. INTERESTS IN THE PROVINCES OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA AND THE YUKON AND NORTHWEST TERRITORIES.



PACIFIC'S HOLDINGS INCLUDE:

	Gross	Net
Land (acres)	13,459,719	7,982,000
Oil Wells	5,591	670
Natural Gas Wells	934	322

PLANTS	**Rated Capacity**	**Interest**
Empress Plant (natural gas processing)	25,000 bbls/d.	100%
Taylor B.C. Refinery	15,500 bbls/d.*	100%

*After current expansion

Pacific also holds varied interests in 24 other natural gas processing plants in Western Canada. The Company's current share of their production is approximately 2,500 barrels of natural gas liquids and 60 long tons of sulphur per day.

PIPELINES	
Petroleum Transmission Company	100%
Westcoast Transmission Company Limited	26%
Western Pacific Products and Crude Oil Pipelines	12%

PLASTICS	
Leco Industries Limited (Plants at Toronto, Montreal)	25%
Midland Industries Limited (Plant at Midland, Ont.)	100%

GASOLINE MARKETING	**No. of Outlets**	
Pacific 66 System	307	
PROPANE MARKETING		
Quebec Propane Inc.	11	100%

OIL AND GAS FIELD INTERESTS

OIL

BRITISH COLUMBIA
Blueberry
Boundary Lake
Bulrush
Currant
Fort St. John
Inga
Osprey
Peejay
Weasel
Wildmint
Wolf

ALBERTA
Bellshill Lake
Bonnie Glen
Clive
Cessford
Coalspur
Crossfield
Enchant
Erskine
Excelsior
Ferrier
Gilby
Hamilton Lake
Homeglen Rimbey
Joarcam
Joffre
Kaybob
Kaybob South
Leduc-Woodbend
Malmo
Manyberries
Milk River
Mitsue
Nipisi
Paddle River
Pembina
Ponoka
Rainbow
Redwater
Snipe Lake
St. Albert
Stettler
Swan Hills
Twining
Wainwright
Westerose
Youngstown

SASKATCHEWAN
Bone Creek
Elmore
Halbrite
Hastings
Hoosier
Instow
Lost Horse Hills
Whiteside

MANITOBA
Ebor

GAS

BRITISH COLUMBIA
Beg
West Beg
Blueberry
Boundary Lake
Bubbles
Buick Creek–East
Buick Creek–West
Buick Creek–North
Clarke Lake
Fort St. John
Fort St. John S.E.
Jedney
Jedney North
Jedney South
Kobes-Townsend
Kotcho
Laprise
Montney
Nig Creek
Parkland
Rigel
Stoddart
Yoyo

ALBERTA
Alexander
Athabasca East
Bindloss
Cessford
Carson Creek
Countess
Calgary East
Crossfield East
Edson
Erskine
Gilby-Sylvan Lake
Homeglen Rimbey
Lone Pine
Kaybob
Nevis
Medicine Hat
Minnehik-Buck Lake
Paddle River
Pouce Coupe
Pembina-Lobstick
Princess
Retlaw
Rycroft
St. Albert
Sylvan Lake
Three Hills
Westerose South
Wimbourne
Worsley

SASKATCHEWAN
Brock
Coleville Smiley
Grattle
Hoosier
Kindersley-Milton

Holdings and Operations in ALBERTA, SASKATCHEWAN and MANITOBA